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UNIVERSITY OF WESTERN ONTARIO

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CORPORATE FINANCIAL POLICY AND THE NEW U. S. TAX BILL

LLOYD W. SIPHERD

ON June 22, 1936, there was passed in the United States Congress the Revenue Act of 1936, designed to effect radical changes in existing corporate taxation procedure. Ostensibly, the new legislation was enacted to provide the additional revenue needed by the federal government to finance increased expenditures, with the corporate form of organization destined to bear the brunt of the demand for larger revenues. The most significant aspect of the new tax bill was that calling for surtaxes on undistributed profits of corporations, the rates of which were graduated upward according to the proportion of total earnings withheld from shareholders. These rates varied according to the following plan:

Ratio of Undistributed Income to Total Income	Rate of Tax
Less than 10%	7%
10% to 20%	12%
20% to 40%	17%
40% to 60%	22%
More than 60%	27%

In view of the fact that the operation of the surtax promises to influence vitally corporate financial policy, it is held by many authorities that possibly the most important objective of the new legislation is to effect a type of reform which has been recurrently advocated for several years. That this definitely was an objective of the administration is indicated by the following remarks of Assistant Attorney-General R. H. Jackson, speaking for the Democratic Club of New York recently: "Stockholders will be less frozen out. The return received on the stock will be much nearer the earnings of the corporation. There will be greater inducement to stable ownership. Receiverships will be less frequent, and reorganizations less common."

It is interesting to note that as early as August, 1934, a writer in the New York *Times* (August 5, 1934) demanded such a scheme of taxation designed to force a change of policy with regard to the disposition of corporate earnings:

"Profit is surely the best measure which can be devised of the utility

of an industry to the community. But an attempt to withhold profits from the community to build up corporate reserves and surpluses, or enhance the interests of a few as opposed to the many, is not only destructive to the community but is self-destructive. The sooner we recognize the need for compelling the distribution of corporate income by a confiscatory tax on earnings transferred to reserves or surplus, or by some other device, the nearer we will be to stabilization of employment, of business and of dividends.

"To deprive corporations of this power would not interfere with their earning ability. On the contrary, by forcing the increase of effective community purchasing power it should enhance their earning ability. It would not interfere with the legitimate growth of those corporations with a history of dividend distribution or a reasonable certainty of a sustained demand for their products, but it would curtail the power of corporations to wage industrial warfare."

It seems clear that an important motive behind such legislation as the Revenue Act of 1936 is the desire to eliminate a condition which allegedly has arisen out of the so-called separation of ownership and control in publicly financed corporations. It is argued that as corporations have grown in size, ownership as evidenced by large quantities of equity securities has become widely scattered and diffused. This condition has tended to permit a concentration of control in the hands of a few close to the corporation, often with little financial stake in the enterprise, and has resulted too often in financial policy motivated by the selfish desires of this management group. Pointed out as evidence of such a condition are the many instances of the withholding by boards of directors of large portions of corporate earnings from shareholders, to whom such earnings rightfully belong.

It is not the purpose of this paper to confirm or deny the existence of such conditions in corporate affairs. Far more important at the moment is the consideration of the financial involvements of that aspect of the new legislation designed to influence corporate policy with respect to the disposition of corporate earnings. In the hearings preceding the enactment of the bill ample opportunity was provided for an understanding of the possible repercussion of such legislation, but apparently legislators were little influenced. Therefore, it is instructive to analyze at this time the possible effects which the imposition of such a tax will have on corporate policy in the future.

Probably the first question which arises concerns the possible effect such legislation will have upon the policy of corporations to conserve

earnings in such a manner as to provide an even flow of dividends to stockholders, regardless of fluctuations in annual earnings. It was pointed out before the investigating committee in Washington that corporate reserves of undistributed earnings proved during the recent depression years not only extremely helpful to corporations themselves, but also provided a valuable source of income to investors throughout the country. A study of corporate earnings during the depression compared with dividend declarations indicates the extent to which these reserves were utilized to maintain dividend disbursements to shareholders. The following outstanding examples may be referred to as evidence of this condition:

American Telephone and Telegraph Company

Per Share (Common)	1934	1933	1932	1931	1930
Dividends	$9.00	$9.00	$9.00	$9.00	$9.00
Earnings	6.52	7.37	7.82	8.93	9.22

General Electric Company

Dividends	.60	.40	.55	1.60	1.60
Earnings	.59	.38	.41	1.33	1.90

International Harvester Company

Dividends	.60	.60	1.50	2.50	2.50
Earnings	* .42	*1.79	*3.14	*1.03	4.55

Nash Motors Company

Dividends	.75	.75	1.50	3.50	5.00
Earnings	* .61	* .45	.39	1.78	2.78

National Biscuit Company

Dividends	2.90	2.10	2.80	2.80	3.30
Earnings	1.57	2.11	2.44	2.86	3.41

Pullman, Inc.

Dividends	3.00	3.00	3.00	3.75	4.00
Earnings	.77	* .70	*1.00	.61	4.37

The Texas Corporation

Dividends	1.00	1.00	1.00	2.25	3.00
Earnings	.59	* .05	* .22	*1.01	1.53

*Deficit.
(New York *Times*, March 15, 1936)

The social and economic aspects of such policies as these are indicated in the following statement issued in a report on this question by the Chamber of Commerce of New York: "Corporate surpluses are a vital factor in maintaining social security during a depression." It was estimated by the Chamber that during the years 1930 to 1934 $26,600,000,000 was withdrawn from corporate reserves to pay workers, creditors and shareholders.

Another warning which went largely unheeded at Washington was that any tax scheme penalizing thrift and handicapping corporate growth from within would place the small corporation at a serious disadvantage. It has long been considered a sound and conservative policy to finance expansion largely through the reinvestment of earnings, but in the case of most young businesses, especially those starting on a modest scale, this may represent the only important source of capital for such a purpose. Hence, the large corporation may grow at the expense of its smaller competitor because of its ability to rely on the investment market for whatever new capital is needed.

In addition, it should be observed that the imposition of a high tax upon earnings may involve injurious financial adjustments within the corporation. Inasmuch as the surtax is based upon that portion of earnings undistributed in a taxable year, little opportunity is given to corporation management to ascertain earnings and to realize upon them sufficiently to make distributions. Furthermore businesses not conducted on a cash basis rarely have their entire income converted into cash for some time. It is conceivable that where the government imposes a heavy tax upon income which the corporation is unable to distribute to shareholders, payment of such a levy may practically amount to confiscation of working capital.

Perhaps of greatest significance is the possible bearing of the new tax measure on corporate debt structure. In the first place, the requirements of the tax bill run contra to many a corporation's obligations to its creditors. Bond indentures frequently require that dividends cannot be paid excepting under certain specified conditions. A very common restriction is that dividends cannot be paid which reduce current assets below a certain figure, or reduce the ratio of current assets to current liabilities below a certain level. These provisions obviously are designed to provide essential protection against dividend disbursements which may tend to weaken the company's liquidity or undermine the assets underlying the bonds. Yet the surtax on undis-

tributed surplus tends to penalize those corporations which are bound by such restrictive covenants.

But, aside from any considerations of a technical conflict between indenture provisions and the Revenue Act, it should be observed that any attempt to force a larger distribution of earnings to shareholders tends to weaken the position of corporation creditors in general. The framers of the Act apparently have taken for granted that altogether, shareholders have received insufficient cash returns on their investments. Yet a financial authority points out that with respect to the financial policy of those corporations with funded debt, practice has been "woefully lax and uneconomic in both its contractual, as well as its informal, policies with respect to safeguarding the rights of the long term creditor class."[1]

There is no denying that there are many examples of top-heavy and unwieldy corporate debt structures. In too many instances have corporation officials too liberally appropriated earnings for purposes other than making plans for the retirement of their obligations. The *Commercial and Financial Chronicle* points out that figures gleaned from the United States Treasury Statistics of Income show that in the thirteen year period 1921 - 33, cash dividend disbursements of all U.S. corporations actually exceeded earnings by about $10,000,000,000 or 25%. It was observed that the new tax bill, far from acting as a constructive instrument of reform, would actually serve to aggravate the tendency to undermine the debt structure and deliver an additional blow to corporate soundness and and the rights of bondholders.

Only time will reveal the exact implications of the Revenue Act of 1936. As a means of producing much-needed revenue, it may prove helpful, but insofar as this legislation is expected to effect certain reforms in corporate financial policy, it is highly questionable that anything constructive will be accomplished. On the contrary, if the Act serves to force a greater distribution of corporate earnings, serious violation of sound financial policy must inevitably occur, resulting in social and economic loss. It is for us in Canada, who must also seek ways and means of increasing government revenues, to appreciate what is involved in a tax program incorporating the principle of a graduated surtax upon undistributed corporate income.

[1]*Commercial and Financial Chronicle* 142, p. 2249.

A BRIEF HISTORY OF PETROLEUM REFINING IN WESTERN ONTARIO

DONALD J. MCLEOD

THE petroleum industry in Western Ontario is now seventy-five years old, for it was in 1861 that the first well was drilled for commercial purposes at Oil Springs, in Lambton County. In the four years previous, experimental work in digging and testing the crude product had been carried on, but the drilling of the famous Shaw well, which produced thousands of barrels of oil a day, started the district's first boom.

To refine the crude oil into illuminating oil—the only product wanted from the raw material—several refineries were built at Oil Springs. But from the beginning Oil Springs was unimportant as a refining centre. Historical records fail to state the names of any refining companies in operation there, although between the years 1862 and 1866 there were as many as twenty refineries in operation. In 1862 Mr. William Spencer of London became interested in the oil industry and as his first step established the village of Wyoming on the Great Western Railway to serve as the point for rail shipment. With Mr. J. H. Williams, he constructed a plank road connecting Oil Springs and Wyoming and replacing the twelve-mile trail over which oil had been hazardously drawn in sleds. When the road was completed the use of wagons became possible and the hauling of oil to the railroad became a profitable—the charge was one dollar a barrel—and safer business. This oil was treated in refineries built by Mr. Spencer at Woodstock and Mr. Williams at Hamilton.

In 1863 Mr. Spencer decided to build a larger and better equipped refinery in London. He believed that London was the logical site because it was closer to the supply of crude oil and was a better distributing point for the refined product. In addition to these advantages, London was the home of industries which could supply

[1]This article was adapted from part of Mr. McLeod's thesis "The History of the Petroleum Industry in Western Ontario."

the materials and equipment needed to built and operate a refinery. With Herman Waterman, Mr. Spencer formed a partnership which built a refinery covering sixteen acres beside the Great Western Railway tracks. After this ambitious lead the number of oil refineries in London grew rapidly and London became the accepted centre of the industry.

The first markets for illuminating oil were entirely in Canada and were limited to the area east of the Great Lakes. Before the discovery that crude oil could be made into lamp oil, kerosene had been in common use. But the new lamp oil was more easily made, was superior in quality and sold in 1864 for $1.00 a gallon as compared to $1.30 a gallon for kerosene. Under refining methods used at that time it was possible to recover twenty to twenty-five gallons of refined oil from one hundred gallons of crude. The more volatile constituents of the oil escaped into the air as waste. Gasoline was unheard of and there was no demand for benzine and very little demand for lubricating oils. But the men who were leaders in the industry carried out constructive research work in an attempt to improve their process. At first the finished product was an amber coloured fluid that made any lamp chimney the same colour in twenty minutes. Then Mr. Spencer discovered a process that purified and improved the quality of the oil. He sold the secret of this process to other refineries, an act which marked a change in attitude among refiners. Previously, the rival refineries had closely guarded their plants by means of high fences and dependable policeman in order to protect refining processes and secrets which each company thought it might have. The exchange of ideas and information was unheard of until Mr. Spencer allowed his important discovery to become a part of the process in other refineries.

The great boom which Oil Springs had in oil production was short-lived and by 1865 it showed signs of rapid decline. Over-production was the inevitable result of the feverish drilling operations and markets could not be found to handle all the crude oil produced. Opportunities for profits appeared less attractive to speculators and the movement of oil men into the town from other districts had practically ceased. Many wells became dry and the volume of oil produced dropped rapidly. There began a rapid movement of oil operators out of the district as new opportunities became apparent elsewhere, particularly in the new fields of Petrolia, sixteen miles away.

Petrolia's boom was as sudden as Oil Springs' collapse. Refineries

were built to replace those in Oil Springs, all of which had closed. New markets were found for oil and the price of crude rose to $10 a barrel. It was at this time, too, that Canadian petroleum was first shipped to the United Kingdom and Europe, and there was a better market in the United States at the conclusion of the Civil War. This expansion of foreign business was so great that between 1870 and 1873 trade with the United Kingdom, France and other European countries accounted for sixty per cent of the sales. In order to secure orderly marketing policies and conditions an association was formed of some of the refineries operating in London. That this organization achieved only fair success was largely because of the actions of those companies which would not join the association.

In 1873 the industry built from Petrolia oil suffered its first depression. Although work in Pennsylvania's oil fields had begun a year later than in Western Ontario, American methods were now more economical and efficient. Consequently Pennsylvania operators were able to offer their product on foreign markets at a price lower than that of Canadian oil, and the invasion of the cheaper oil ruined Canada's European trade. The Canadian industry fell back on the home market, which was quite incapable of absorbing even one-half of the current output, and the slump was on. Prices began falling and early in 1876, with no improvement in sight, refined oil was selling for 35c a gallon, a great change from the 1872 price of $1.00. Those refiners who were operating at a loss were forced to suspend operations, but there were still many refineries in use in London and Petrolia.

In 1876 the larger London refineries amalgamated into an organization called the London Oil Refining Company. The following refineries entered this company: W. Spencer & Son; F. A. Fitzgerald & Company; Waterman Bros.; Duffield Bros.; T. D. & E. Hodgins; Geary, Moncrieff & Company. The chief purpose of this company was to act as a trade or marketing organization, developing new markets and gathering all available information on refining. But all the refineries continued operations on the old scale and the most important cause of the depression, over-production, was not removed. Prices of refined and crude oil continued to fall, reaching a low of 10c a gallon and barrel respectively.

A return to more normal and prosperous conditions did not begin until 1880, when a combination of factors producing recovery began to operate. The first important event was the incorporation of the Imperial Oil Refining Company,

Limited, in 1880, an amalgamation of seven London refineries into one company which later took over several Petrolia refineries. All refining operations were transferred to the largest of the seven refineries and the rest were closed. This important reorganization of the refining business helped to bring order to an industry which had suffered seriously from unwise competition and over-production. The combination of abundant capital and the best brains in the business brought immediate developments. Following the introduction of fractional distillation in refining the quality of old products was improved and a line of petroleum products added. The market for these products was in the process of rapid growth. Eastern Canada was becoming more settled and industrialized. Westward expansion created the needs for railways and agricultural implements. During the decade following 1881 the internal combustion engine came into general use. These factors explain why the consumption of refined oil in Canada increased eighty per cent between 1881 and 1891.

In 1883 the London refinery of Imperial Oil ceased operations and London's career as an oil refining centre came to an end. In the meantime an unknown company had built a small refinery at Sarnia, thereby constituting the only outside competition with Petrolia's refineries. But Imperial Oil's refinery in Petrolia continued to lead the industry as the company grew in size and strength. In 1897 the small refinery in Sarnia was purchased by Imperial Oil. When the capacity had been sufficiently enlarged, all the company's refining activities were transferred from Petrolia to Sarnia. Sarnia was a strategic point for an oil refinery. Crude oil was brought from the Petrolia fields, but after construction of a pipe line from Cygnet, Ohio, to Sarnia most of the crude oil was brought from Texas. Proximity to the St. Clair River permitted convenient and economical water transportation.

After the closing of the Imperial Oil refinery in Petrolia, the plant operated by the Canadian Oil Company was the only refinery in Petrolia. Since that time the history of the refining industry in Canada is contained in the development of the two companies. The Canadian Oil Companies, Limited, was incorporated in 1908 to replace the Canadian Oil Company. In 1919 the Imperial Oil Refining Company, Limited, became Imperial Oil, Limited, a holding and operating company controlling subsidiaries engaged in all phases of the petroleum industry.

Today the Lambton fields do not begin to supply the demands of the

two refineries for crude oil. But while production in the district has been decreasing in importance, refining has advanced with the times. In 1935 Canadian Oil Companies, Limited, opened an addition that doubled their capacity; and Imperial Oil maintains at Sarnia the largest refinery in Canada.

INVESTMENT ANALYSIS OF THE COMMON STOCK OF THE CANADIAN PACIFIC RAILWAY

GILBERT R. HORNE

This article and the one to appear in the Winter issue were adapted by Mr. Horne from a report on the Canadian Pacific Railway written while he was studying for a Master of Arts degree in Economics at the University of Michigan.

Introduction

THE analysis of the common stock of a company for the purpose of discovering its investment possibilities will proceed under three main headings, viz: (1) a study of the general business risk, typical of the industry in which the company carries on; (2) an analysis of the individual business risk, peculiar to the particular company in question; (3) the financial risk, which is a result of the capital structure of the company. Because of the limited space, it has been necessary to present the analysis of the common stock of the Canadian Pacific Railway in two articles. The first of the articles will therefore consider the favourable factors under the three above-mentioned headings; the second will be concerned with the unfavourable factors in the three different phases of the investment risk, and will include our conclusion.

The General Business Risk

Until the last few years, railway securities have held a high place in the investor's estimation of potential media for investment. Railroads, dependent upon agricultural and industrial activity, have shown a great decline in earning power in the depression. Since the industry is one marked by a great burden of fixed cost, the long decline in business resulted in deficits and in the dissipation of the surpluses of many roads, formerly considered of almost invincible strength. Many roads, like the Canadian Pacific, with records of almost continuous dividends since inception, have been forced to pass their dividends.

Railways have most of the advantages of public utilities, such as stable earnings, the supplying of a necessary service and monopoly position with no direct competition. Although motor truck com-

petition has minimized the monopoly advantage of the railroads, we do not consider this to be an investment deterrent from a long run point of view. Truck companies have had such signal advantages as relatively low overhead cost, the lack of a large equipment investment, no extensive terminals and no right of way to keep up. They have also had relatively little government regulation to contend with, and have not been taxed adequately. The well-known importance of the railroads in the Canadian economy is such that a solution to the rail-motor problem, which will not be detrimental to the railroads, may be looked for sooner or later. The large interest of the federal government in the Canadian National system predicates an interest in "fair" competition between trucks and railroads, or in assigning each its field. Also, the writings of such men as Professor Jackman,[1] who advocates, as the most expedient solution of the vexing question, that the railroads be given control of truck transportation as a phase of the transportation service, undoubtedly are exerting their effect upon the men in legislative positions. Finally, the passage of time sees the truck business passing into the hands of larger companies, and the establishment by the latter of regular rate structures and fixed schedules. With the building of terminals, the trucking industry will partake more of the nature of a fixed cost industry, and will prove less flexible than is the case at present.

Another potential competitive risk to be reckoned with is that of the St. Lawrence Deep Sea Waterway. However, the Senate of the United States, the present administration in Ontario, and the finances of the Dominion are among the obstacles to the waterway. Economically, the project is hardly feasible within the next generation, unless tremendous political and economic changes take place.[2]

The success of the Canadian Pacific before 1930, in contrast to the results of the amalgamation of profitless roads which make up the government-owned Canadian National system, is a strong factor making for the security of private ownership. The good record of the Canadian Pacific in the past seems to afford an argument of some weight against possible nationalization of all railways in Canada, and so protects the in-

[1]In "The Economics of Transportation"—revised edition, 1935, University of of Toronto Press; also, in various writings in such publications as the *Financial Post*, Toronto.

[2]See Jackman's book; also, C. P. Wright, "The St. Lawrence Deep Waterway; A Canadian Appraisal"—Macmillan, Toronto, 1935.

vestor in the Canadian Pacific from such an eventuality.

The fortunes of railways in Canada are those of the Canadian economy as a whole. The good record of the Canadian Pacific since its organization is connected with the rapid industrial and agricultural expansion of Canada before the depression. The opening up of new agricultural land, the exploitation of new natural resources, the expansion of Canadian foreign trade, immigration and colonization, have all redounded to the benefit of the Canadian railroads. The gradual recovery of business since 1932 has brought about a gradual rise of revenue traffic for the latter. Assuming the future is to be anything like the past, it would seem that the development of Canada's natural resources, expansion of her foreign trade, and the general economic growth of the Dominion guarantee a real future for Canadian railroads.

The Individual Business Risk

The company was incorporated in 1881 to complete a national undertaking begun by the government in fulfillment of an agreement made with British Columbia in connection with the latter's entrance into confederation. The company received many millions of acres of land, \$25,000,000 in cash and 713 miles of government line already constructed. By 1886 the road was completed and opened for through traffic. Later, the company got access to the east by the purchase of smaller roads. Extensions were built in both east and west, and smaller lines were absorbed. Since 1888 the company has had lines in the United States, largely obtained by the purchase of a majority of the stock of American roads. Express and telegraph companies are operated, and many auxiliary activities such as the hotel and steamship business are carried on. The majority of the common stock of companies in more or less unrelated activities, such as mining, is also held by the concern.

Management

Although excellent management is not so essential an investment factor for public utilities or railroads as for industrials, it looms large in the case of a company like the Canadian Pacific. This concern, with its multiplicity of holdings of various kinds, and its interest in many different enterprises, must pose many complex managerial problems. Judged from its record prior to 1929, however, the company has very high grade management. The addition of new types of equipment, such as the streamline loco-

motives now planned for certain lines, is evidence of progressive management.

Traffic Analysis

Revenues are the source of the dividends of stock companies. It is essential to examine the source and diversification of the chief revenues. As in 1930, the sources of revenue of the Canadian Pacific were about as follows: 76 per cent from freight, 15 per cent from passenger traffic, and 9 per cent from all other sources. We thus see the all-importance of freight traffic to this company, which has so many other sources of revenue.

In Table I we have presented a classification of the revenue tonnage carried by the railroads. There is evidence here of a fairly diversified type of traffic. We have also included in the table the classification of tonnage carried by the Canadian National and by all American railroads. The Canadian Pacific has not so large a percentage of mine products tonnage as all roads. This is a good factor, as this type of traffic bears very low rates.

TABLE I

Classification of Revenue Tonnage by Source

	All American Roads (1931)	C.N.R. (1934)	C.P.R. (1935)
	%	%	%
Agricultural Products	11	23	29
Animal Products	3	3	3
Mine Products	56	33	34
Forest Products	5	12	12
Manufacturers and Miscellaneous	23	26	19
Merchandise—L. C. L.	3	3	3

Source: Figures for all American roads based upon tonnage figures given by Moody's 1932 publication of "Steam Railroads"; the percentages for the Canadian National are based on figures in Moody's "Steam Railroads" for 1935; the Canadian Pacific data are from the Standard Statistics Service.

Operating Efficiency

In Table II are presented some statistics bearing on the operating efficiency of the Canadian Pacific. In 1933 revenue freight density hit its low (less than 50 per cent of the 1928 figure). Since then a gradual improvement has taken place, indicating business revival. The great decline in passenger density is demonstrated in the statistics. This figure will undoubtedly show a rise as a result of the recent reduction in passenger rates. The reductions are not so great as those of the American roads, and perhaps will result in a gratifying increase in revenue from this source, which will more than cover any increased direct costs on this score.

TABLE II

Traffic Statistics of the Canadian Pacific Railroad, and Operating Ratio of the Canadian National

	1928	1929	1930	1931	1932	1933	1934	1935
Per cent loaded to total car mileage	65	67	66	66	65	65	65	66
Revenue Freight density (in thousands)[1]..	1,264	1,000	809	680	596	549	589	611
Revenue passenger density (in thousands)[2]..	92	82	66	45	38	36	40	40
Operating ratio[3]....	77.4%	79.4%	78.9%	82%	83.8%	81.7%	80.6%	82.7%
Operating ratio of Can. National		85.4%	91.2%	99.4%	96.3%	96.2%	92.1%	

[1]Revenue freight carried one mile per mile of road (in tons).
[2]Passengers carried one mile per mile of road.
[3]Ratio of operating expenses to gross earnings.
Source: Moody's Manual of Investments, Steam Railroads, 1935, and Standard Statistics Service. Data on Canadian National from Poor's Volume on "Railroads" for 1935.

The operating ratio, a useful index of railroad efficiency, was rising to 1932, when it approached 82 per cent. Since then the ratio of operating expenses to gross operating revenue has declined to about 80 per cent. For contrast, we have included in Table II the operating ratio of the Canadian National. In the latter case the percentage of revenue remaining for fixed charges is relatively small.

Table III is an abbreviated version of a comparative income account for the company for the years 1928 to 1935, inclusive. It is to be noted that gross revenue experienced a greater percentage decline through the depression than did net operating income. Since 1932, the latter figure has been gradually improving. Special income has shown a great decline, but is gradually showing signs of recovering. Finally, net income is beginning to rise with the recovery in business.

TABLE III

Income and Expense of the Canadian Pacific Railroad, 1928-1935 Inclusive (In Thousand Dollars)

	1928	%	1929	%	1930	%	1931	%	1932	%	1933	%	1934	%	1935	%
Gross Operating Revenue	229,039	100	209,731	100	180,901	100	142,238	100	123,937	100	114,270	100	125,543	100	129,679	100
Operating Expenses[1]	177,345	77	166,586	79	142,652	79	116,655	82	103,847	84	93,408	82	101,159	81	107,281	83
Net Operating Income	51,694	23	43,145	21	38,249	21	25,683	18	20,090	16	20,862	18	24,384	19	22,398	17
Special Income[3]	12,678	6	15,232	7	20,043	11	10,952	8	4,537	4	6,222	5	2,880	2	4,594	4
Gross Income	64,372	28	58,377	28	58,292	32	36,635	26	24,627	20	27,085	24	27,264	22	26,992	21

Fixed Charges:																
Interest	14,170		15,009		18,024		20,009		21,509		20,712		20,953		20,585[3]	
Rentals	1,139		1,140		1,136		2,041		2,110		3,676		3,625		3,575	
Total Fixed Charges	15,309	7	16,149	8	19,160	11	22,050	16	25,620	19	24,389	21	24,578	20	24,160	19
Net Income[4]	48,313	21	41,478	20	38,382	21	13,834	10	258	0.2	1,257	1	2,686	2	2,832	2

[1]Including tax accrued and such items.

[2]Special income, consisting of: income from investments and available resources; interest and dividends on other securities, interest on bank deposits, exchange, results of separate operating properties; net earnings of steamship lines; net earnings of commercial telegraph and news department, hotels, rentals, etc. The operating results of two electric lines are included here. Special income for 1933 is overstated, because of improper charge of depreciation on steamships to surplus.

[3]Including amortization on bond discount of $42,378.

[4]The small amount deducted on account of pensions every year has not been included in the table.

Source: Standard Statistics Company corporation records.

Tables IV and V present the figures for monthly earnings up to the end of May, 1936, and the comparison of these with similar figures for the same period in 1935. This comparison will serve as an index of the current improvement and immediate prospects of the company. Such information is very important, since the study of past history is only significant for the investor if it provides him with a guide for the purpose of estimating the future. It is the future of the company, not its past record, that is of interest to the investor.

TABLE IV

Comparative Monthly Gross Operating Revenues of the Canadian Pacific, 1935 and 1936

	1935	1936	Per cent change from 1935
January	$ 8,266,643	$ 9,323,823	+12.8
February	8,656,020	9,280,593	+ 7.2
March	9,515,608	10,679,577	+12.2
April	9,986,543	10,580,236	+ 6.0
May	9,913,938	11,222,507	+13.2
Total to end of May	$46,338,752	$59,086,736	+10.3

Source: Standard Statistice Company Corporation Records, and Daily News section.

TABLE V

Comprative Monthly Net Operating Income of the Canadian Pacific, 1935 and 1936

	1935	1936	Per cent change from 1935
January	$ 204,313	$ 612,573	+200
February	850,145	867,397	+ 0.2
March	1,047,237	1,347,733	+28.7
April	1,412,598	1,337,458	+ 5.3
May	1,143,914	1,450,289	+26.8
Total to end of May	$4,658,206	$5,615,450	+20.5

Source: Standard Statistics Company Corporation Records, and Daily News Reports.

Gross earnings show a great growth in the first five months of 1936 as compared with the same period for 1935—the total increase to date being 10 per cent. The total increase of net operating revenue to date (see Table VI) is over 20 per cent. For the same period in 1935 compared with 1934 a decline of 1.9 per cent in gross revenue and a decline of more than 26 per cent in net operating income had occurred. The movement of the greater proportion of the revenue freight of the Canadian Pacific takes place in the second half of the year, it seems. Increased receipts are looked for under "Special Income." Therefore, we have a real indication here that the company is participating in the recovery of the Dominion. All these factors point to the company's producing a better earnings record for 1936 than for any year since 1931. This improved situation is reflected in Sir Edward Beatty's speech to the stockholders in May. The president expressed the confidence that earnings will soon be increased to an extent that will permit the resumption of dividend payments, at least on the preferred stock.

The Financial Risk

By the financial risk is meant that risk which arises out of the financial structure of the company. The risk on this score depends upon upon the terms of the investment contract, which sets forth the order of precedence of each of the types of securities on the income stream of the company. Table VI contains a summary of the financial plan of the Canadian Pacific Railway Company. While the percentage of funded debt to total capitalization has tended to grow, the figure of 37 per cent is low when compared with that of most American roads. The Canadian Pacific has always had a high rate of owners' equity to total capitalization; in spite of the depression decline, it is still fairly substantial.

TABLE VI

Funded Debt and Residual Equity of the Canadian Pacific Railroad, 1929-1936 Inclusive
(Unit = $1,000)

	1929	%	1930	%	1931	%	1932	%	1933	%	1934	%	1935	%
Funded Debt	401,302	30	446,889	33	475,375	35	489,209	36	513,451	37	496,719	37	491,752	37
Residual Equity	917,499	70	908,532	67	890,374	65	871,399	64	873,307	63	863,700	63	842,300	63
Total: Funded Debt and Residual Equity	1,318,901		1,355,421		1,365,749		1,360,608		1,386,758		1,360,419		1,334,052	

Source: Computed on the basis of statistics given in the Standard Statistics Company Corporation Service.

In 1935, fixed charges were about 19 per cent of gross operating revenues (see Table III above). Of more importance is the number of times fixed charges were earned. At no point during the depression did the company fail to earn its fixed charges, although in 1932 they were earned but 1.01 times. In 1935, they were earned 1.12 times, gradual improvement having taken place since the low point was reached. Evidence of the improving financial position of the road is found in several sales of new collateral trust bonds in 1936. The price, giving a yield of but 3 or 4 per cent (depending on the maturity date of the bonds), involves but a low premium for risk.[3] The maturities of the various obligations of the Canadian Pacific seem well-spaced. The current position of the company at the end of 1935 was about 4 to 1.

Of importance to the stockholder will be consideration of the effect of failure to pay the interest on the funded debt. In Table VII we present a summary of the component elements in the company's fixed obligations. The equipment trust obligations and the first mortgage bonds are of particular concern to the common stockholder. If the interest on these were not met, foreclosure would disrupt the operation of the road. But it will be observed that the first mortgage bonds of the Canadian Pacific amount to less than four million dollars, and the fixed charges on these is just $182,500. The equipment obligations amount to about thirty-six million dollars, carrying

[3]Assuming the theoretical rate of interest on a riskless investment is about 2%. The latter would seem to be a reasonable figure, as the rate of return on savings deposits with the chartered banks was recently reduced to 1½ per cent.

TABLE VII

Summary Statement of the Funded Debt of the Canadian Pacific, as of July, 1936

	Amount	Fixed Charge
Equipment trust obligations	$ 36,314,000	$ 1,718,275[1]
5% first mortgage bonds, due July 1, 1937	3,650,000	182,500
4% consolidated debenture stock[2]	291,411,549	11,656,452
Collateral trust bonds[3]	152,500,000	8,740,000
20-year 4½% sinking fund note certificates, due 1944[4]	20,838,700	937,472

[1]Approximate.
[2]Not including that held behind collateral trust bonds.
[3]Secured by deposit with trustee of 4% consolidated debenture stock of the company to something over the par of these bonds.
[4]Originally in 1924, $30 million issued—in hands of a trustee is the balance now. These are a direct obligation of the company, secured by assignment to trustee of all unpaid purchase money or deferred payments owing or accruing to the company with respect to land in the Western Provinces sold before 1924. As of the latter date about $66 million due on said sales.
Source: Standard Statistics Company.

a fixed charge of approximately $1.7 million. So the prior charges that absolutely must be met if the road is to continue operating are just below two million dollars per year. As can be seen from the earnings statement (gross income of 1935 less rentals, but before other fixed charges, is $23.4 million), this item was earned 12 times.

The financing by the use of collateral trust bonds, which are secured by debenture stock of the Canadian Pacific, is a very favorable factor. The 4 per cent perpetual debenture stock held in trust for the collateral bondholders would be issued to the latter in the event of failure to meet the obligation on the bonds. The perpetual debenture stock is a hybrid between a stock and a bond. That is, this "stock" is perpetual and non-callable, but it carries a fixed return of 4 per cent. The fact that so much long term financing has taken place by means of this type of obligation is a very healthy indication of the investment record of the Canadian Pacific. Failure to meet the interest (or "dividend") of 4 per cent annually on the debenture stock would, after a period of time, result only in the giving of so many votes to the holders of these obligations. But the security behind the latter is simply the general credit of the company.

The common stock is preceded also by 4 per cent preferred. Prior to 1931, the company had never failed since 1899 to pay the annual dividend on this type of stock. The dividends are not cumulative. Present indications are that they will be earned with a fair margin in 1936.

TABLE VIII

Book Value of the Common and Preferred Stock Per Share of the Canadian Pacific Railroad

1929	$48.16
1930	46.67
1931	45.02
1932	43.76
1933	42.74
1934	41.82
1935	40.33

Source: Standard Statistics Company Corporation Records.

In Table VIII we present the book value of the common stock and the preferred. As of the end of 1935, it was more than $40 per share. The book value of the common and preferred stock has been lumped together because of the fact that the preference stock has no preference over ordinary stock in the event of liquidation. The prefer-

ence is purely one of dividends. So the tangible assets behind each share of common stock appear to amount to about $40.

A study of the record of dividend payments on the common stock of the company yields the information that, with the exception of 1895, dividends have been paid every year since the company's inception (1882). From 1912 to 1929, inclusive, there was a dividend of $10 a share (this would correspond to $2.50 a share after the 4-for-1 split of 1930). This dividend was earned until 1931. Payments were entirely discontinued after 1932.

The present market price of about $13.25 a share (December 1, 1936) shows up well against a tangible book value of $40. An additional backlog of strength behind the stock is to be found in the miscellaneous investments of the road. Stockholdings in Consolidated Mining and Smelting Company had a market value of almost $7 for each share of Canadian Pacific stock.

This article and the one to appear in the Winter issue were adapted by Mr. Horne from a report on the Canadian Pacific Railway written while he was studying for a Master of Arts degree in Economics at the University of Michigan.

THROUGH THE WINDOWS OF THE WORLD

ARTHUR G. DORLAND

Veering Public Opinion

DURING the past summer the outlook in Europe shows no improvement as the drift towards armed conflict grows more pronounced. Not—it should be noted—because of the inevitability of such a disaster, but because of the failure of intelligent, concerted action to prevent it. For it is safe to assert that none of the European peoples really wants war. The most discouraging and dangerous thing about it all is the fatalism and lethargy of those who, drifting with the tide of opinion, make no effort to stem it or direct it into saner channels; or by ever talking about "the inevitability of war," go more than half way to bring about such a disaster.

Public opinion has undergone some curious changes since the signing of the Peace Treaty. We recall for instance the time when to question the rightness of the Treaty of Versailles was to invite suspicion of one's moral and political soundness, not to mention one's mental sanity. Today it is as fashionable to denounce the Versailles Treaty as it is to cast slurs upon the achievements of the League of Nations. Thus public opinion veers and changes; but in response to the prejudice of the moment or to passion, seldom in response to the dictates of reason or of justice.

Ever since the disastrous Treaty of Versailles a small but informed body of liberal opinion pointed out the necessity of treating generously the defeated powers to ensure their normal and speedy recovery (with which it was realized our own recovery was closely bound up) rather than leaving them permanently embittered and crippled, against the fatal consequences of which we were repeatedly warned. But French determination to make the League of Nations an instrument of enforcing to the last letter the terms of the Peace Treaty, rather than a means of revising its more drastic provisions, has brought its own nemesis and ultimate failure. Today, tragically enough, the newly elected Socialist Premier of France, M. Blum, the only Frenchman in recent years

who might have led his country in a more enlightened foreign policy, has arrived on the scene too late as a statesman of conciliation to better the present situation. For there is no longer a Streseman but a Hitler in control of Germany, and the day of conciliation has passed. Moreover, the failure of the allied and associated powers within the past eighteen years to reduce their own armaments toward the level of a disarmed Germany, has brought into being the rearmed, defiant Germany of today which has successfully resisted all attempts either to hold her down or to crush her.

As a consequence of all this we may as well recognize that the Versailles system to all intents and purposes has ceased to exist, and at the moment the League of Nations, so unhappily linked with this system, stands completely discredited in the eyes of the world. With characteristic unreason and impatience now that the League can no longer serve as a guardian of special interests and of a *status quo* heavily weighted in favour of the principal League members, public opinion in these countries is as quick to condemn as it was formerly to support the League. The reaction from this unfortunate, though not entirely unforeseen, failure in the almost untried technique of international co-operation, has been as violent as it was at one time enthusiastic, with the tragic result that many profess to see no other solution than to fall back on the old device of armed alliances such as existed prior to 1914, rather than realistically to face the necessity of rebuilding the League in some more workable form.

Increasing Tension Between Fascist and Communist Nations, and the Recent Nuremberg Conference

During the past summer another disturbing influence has appeared in the sharpening of differences between the contending ideologies of Fascism and Communism which has contributed greatly to the growing feeling in certain quarters that armed conflict is "inevitable." While challenging this so-called "inevitability," the fact remains that, although countries under democratic forms of government contain elements favourable to Fascism, such as the followers of Colonel de la Rocque in France, and of Sir Oswald Moseley in Great Britain, these countries are in the main by reason of foreign alliances or actual sympathy of interest thrown into the balance on the side of Communism and of its principal proponent, Russia. The result has been a return of France, Great Britain and Russia to what is to all intents and purposes the old pre-war Triple Entente as a counter balance to Germany. This has affected

another curious swing of public opinion with respect to Russia. We can remember, for example, a time not so long ago when the mere mention of Russia or Communism was supposed to raise goose-flesh on on every decent citizen throughout the Commonwealth; or when Canada—with much show of self righteousness, following the lead of the Baldwin Government in Great Britain, severed trade relations with Russia. Now apparently all is changed. The goose-flesh rises no longer. Trade relations have been resumed with the former outcast of the nations, and she has been welcomed to membership in the League of Nations as the main hope of those who, with her support, aim to keep Germany and Japan within certain bounds.

The National Socialist rally held at Nuremberg in Germany during September has served to increase the tension between these two conflicting ideologies and—if anything —has worsened Anglo-German relations. At this important congress Dr. Goebbels made a slashing attack on Russia in which he accused her of organizing revolutionary movements to overthrow the existing Nazi regime, and pictured Germany as the outpost of Western Culture and Civilization against the inroads of Oriental barbarism and subversive ideas. Admittedly Dr. Goebbels' pointed attack was intended principally for internal consumption, since the Nazi party finds the main justification for its existence and policy in the alleged peril of Communism, from which it claims to have saved Germany, and now would like to save all Western Europe. There was a further significance in Dr. Gobbels' speech. He was seeking to demonstrate to Great Britain the danger of supporting the recent Franco-Soviet pact, and at the same time he was looking to a possible orientation of German policy in the future that might arise from the proposed Locarno discussions in which Germany has been asked to participate. A clear implication of this Nuremberg speech is that German policy in the future will definitely seek to isolate Russia, and, by reason of her Communist policy, exclude her from the community of European nations altogether.

Before we dismiss the German point of view as utterly fantastic, it might be well to recall the state of public opinion in Great Britain when opposition to closer trade relations with Russia and the alleged revelations of the famous Zinoviev letter of 1924 wrecked the Labour government under Mr. Ramsay MacDonald and swept the Conservatives back into power under Mr. Baldwin. It is possible that the Communist peril from Russia is no more real in Germany today that it was alleged to be in

England back in 1924. But if a majority of Germany, rightly or wrongly, believe this to be the case, we must face the problem of relations with Russia with this German attitude in mind as an important factor to be considered.

This does not mean for a moment that Great Britain should consent to the German view that Russia should be completely isolated from the community of nations. On the contrary, Great Britain should show that she recognizes the importance of Russia's remarkable social and economic experiment, and that in any attempt to rebuild the League, Russia must have a part as well as Germany, if we are ever going to have a real League of Nations. On the other hand, if Germany is to enter the League, Great Britain might very well ask Russia as a necessary condition that she promise to cease all subversive propaganda against Germany, even as Russia did against Great Britain as the first condition for the resumption of friendly relations some years ago. Such a promise to Germany on the part of Russia would steal much of Hitler's thunder and at the same time remove one of the principal obstacles to better understanding and a measure of co-operation. Therefore, while Germany has expressed a wish to be re-associated with the League of Nations and thus escape from her present position of isolation, the German point of view asks: Can Europe hope to operate a League of sovereign states if members of that League are organizing revolutionary propaganda across each others frontiers at the same time that they are negotiating common action together? In all fairness to Germany the answer is "no," and steps might well be taken to secure Russian recognition of this difficulty as a means of removing the growing dangerous feeling that conflict between Germany and Russia is inevitable. Moreover, Russia herself has much to gain for her own internal development by such a cessation of external propaganda; for in that case security agreements could be contemplated in the East of Europe which will otherwise prove impossible. If, therefore, France, Great Britain and Germany could find some common approach to this problem, then Germany could be challenged to state her intentions regarding the organization of security agreements under League auspices in both East and West; and in this way some constructive framework of peace might be achieved.

Some Aspects of the Spanish Civil War

The present civil war in Spain has also sharpened the sense of conflict between Fascist and Communist countries and divided public

opinion along lines of class feeling more than any event since the Bolshevik revolution in Russia. Consciously or unconsciously every nation and every class is interested in the issue, so that the collective neutrality pact with which Great Britain and France have sought to insulate Spain, and which Russia Germany and Italy joined with reservations, is daily becoming more difficult to maintain. Thus another danger zone has been created in Europe.

Those who profess, however, to see in the Spanish Civil War simply a struggle between Fascism and Communism are either woefully ignorant of the Spanish situation, or wilfuly misrepresenting the real issues to serve certain special interests. For the present government of Spain—which by the time these words appear in print may be the *de facto* government no longer—is not a Communist government but a popular Front, similar in some respects to the new government of France under M. Blum. It is true that Communism has been making gains in Spain under the reactionary government that preceded the present Popular Front government in Spain; but the Communist party is only one component part of the Popular Front organization as a whole. As a matter of fact since there were only about fifteen Communists elected to the Spanish Cortes in the last regular election, this small proportion would hardly dye the present government pink, not to mention the red that Fascist propaganda has tried to depict. There are several minority groups comprising the Popular Front which are little known outside Spain itself, but they represent the upward drive of the masses against the remnants of feudalism and aristocratic privilege. As well as the Communists there are for example the "Republican Progressives," the "Conservatives" and the "right-wing Socialists" who have in common at least their desire to restore liberal parliamentary rule once more. Then there are the "left-wing Socialists," led by Largo Caballero, and the small but influential "Workers' Party of Marxist Unity," both of which aim at a soviet form of government. The "Anarcho - Syndicalists" represent another powerful group in Spain who want local communes free from any central interference whatsoever. This anarchist group (sometimes called "Regionalists"), although many of its members are highly idealistic, constitutes one of the chief dangers to the creation of a stable Popular Front government, because of its unwillingness to co-operate for long with any form of government at all.

The Fascist rebels also have their differences. What holds them together at the moment is a com-

mon hatred of the masses and a common desire to exploit the workers and peasants. These reactionary elements are supported by the Church, which has won the detestation of the majority of the Spanish people who—to quote the distinguished Jesuit editor Father Parsons—"got to hate the Church because they hated the friends of the Church, who exploited them and whom the Church did nothing to rebuke or correct." The widespread illiteracy in Spain which obtains among about fifty per cent of the population is also directly attributable to the neglect of the Church and to the reactionary kind of government that previously existed, which the Fascist rebels desire to restore once more. On the other hand, this does not mean that there is complete unanimity among the Catholics of Spain in backing the rebel conservative reactionaries. For just as a majority of Catholics in 1931 disregarded their leaders' orders to support the Monarchy and voted overwhelmingly for the republic, so now a great many followers of the Church understand that there is no deliverance for the Catholic religion from Fascism which, as in Germany, has been waging relentless warfare against the churches.

The growing feeling that the success of the Fascist rebels in overthrowing the present Popular Front government would be a blow to democracy throughout the world has much to support it. In the London *News Chronicle* there was published a message sent from Madrid by Senor Angel Gallardo, Spain's foremost Liberal lawyer. Gallardo is a fervent Catholic, has been a member of the Cortes for twenty years, was formerly a member of the Cabinet, is President of the Madrid Athenaeum of Literature and Science, Chairman of the Law Academy, etc. This leading Spanish citizen and Catholic layman cabled: "I should appreciate the opportunity to explain to the Christian and Liberal people in Britain that the accusation that Spain is ruled by a demagogic and destructive ministry, justifying a military Fascist rising, is totally and absolutely false. Since the Popular Front's electoral victory the three successive Cabinets have been exclusively republican, bourgeois, parliamentary and moderate."

We are witnessing in Spain today, as a reliable observer has put it, "a crude and terrible battle between the remnants of feudalism and the upward drive of the masses anxious to push out into new fields." The tragedy is that even if the present revolt of the reactionary elements succeeds, the battle will only have to be fought all over again in the future. It was inevitable that in a struggle of this kind, when the hounds of war were

released, all kinds of savagery would be perpetrated by both sides. But there has been on the part of the Fascists' supporters a very marked tendency to exaggerate government outrages in order to justify their own policy of exterminating their opponents. Moreover, many atrocity and anti-religious stories appearing in the reactionary press of various countries have, when analyzed, proved either false or totally misleading. For example, Lord Rothermere's *Daily Mail* of August 26 carried *part* of a photograph showing a Spanish woman soldier dancing. The caption under the picture asked: "Is it the celebration of yet another Outrage Against Christianity?" But the same day the *Manchester Guardian* published the *full* picture, and indicated that it was only a scene of a social hour at camp. Thus the fine art of propaganda is conducted by many of the big daily papers both in Great Britain and in the United States which, so far as their policy is concerned, have been predominantly Fascist. There is the danger, therefore, that many falling victim to this propaganda give their moral support and sympathy to the enemies of everything that democratic people count civilized.

Faith in the League Not Dead

In spite of much that is discouraging in the world situation at present to those who believe in the possibility of an orderly and peaceful world, there are one or two events of the past summer of a more encouraging nature that have not received much notice in the press. First of all there was the World Youth Congress which met at Genera early in September. The Congress, composed of 500 delegates and 200 alternates from 36 countries, voiced faith in the League of Nations and blamed League failures upon governments which refused to fulfill Covenant obligations. Delegates urged reduction of armaments, abolition of military aviation and the creation of an international air police force. Hatred of war and refusal to accept it as inevitable were the dominating notes of this Congress, which indicated that the youth of today have lost interest in being the cannon fodder of the next war and show an intelligent interest in doing something about it. Sad to relate, however, the youth of Italy and Germany were prevented from attending, lest they should be contaminated by such international fellowship. Nevertheless, the leaders of these two countries by this very action testify to their fear that such an association of youth will weaken local patriotism and prejudice, thus holding out the promise of peace in the future.

The World Alliance for International Friendship through the

Churches, an organization representing almost every religious body in the Occident, held an important conference in Chamby, Switzerland, at which several resolutions were passed indicating that the religious leaders in many lands are alive to their responsibility in maintaining peace. The following extracts from their resolutions will serve to show something of their line of thought: "We believe that the solution of the world problem is to be sought in the Christian faith, whence comes the power to change the motive and direction of personal and public activity. . . . We urge that the League of Nations, acting in conjunction with those States not included in its membership, should convene, after due preparation but at the earliest practicable date, a World Conference open to all States. Protective tariffs and financial obstacles to world trade, inability to obtain raw materials and an outlet for excess populations, and the future administration of colonial possessions and mandated territories would necessarily be among the subjects with which such a conference should deal."

All of which suggests that if a small fraction of the money and effort that is being spent today on armaments were spent in implementing some of the policies indicated above, this old world might be a better place in which to live.

THE INDUSTRIAL STANDARDS ACT

CECIL C. CARROTHERS

THE first session of the Nineteenth Legislature of the Province of Ontario, begun and holden at Toronto on the 20th day of February, 1935, will appear in the eyes of posterity, we believe, as a truly historical one. Much highly contentious legislation found favour in the eyes of the assembly men; much of it has already been tested in the courts; more is still in that process. But while the press of the province was exercising itself in violent approval or denunciation of measures such as that invalidating power contracts of the province, or that amalgamating certain border communities, or that providing guardianship for infants born in alarmingly excessive numbers, a highly socialistic legislative measure passed almost unnoticed — one of the several score of acts approved by the Lieutenant-Governor on April 18th of that year.

Few legislators paid any attention to an Act respecting Industrial Standards. It occurred to some of them that it vaguely suggested the "Weights and Measures" clause of the B. N. A. Act—and more vaguely came the idea that it probably should be a matter for the federal parliament. Some few radical members, acquainted with its provisions, and aware of its potentialities, hailed it with secret delight—but said nothing. It would be interesting to know whose brain child the Act is, to what extent it was inspired by the experimental legislation of Roosevelt and how clearly the full implications of the political and economic significance of the measure were seen by its proponents. Initiated and legislated by a Liberal government, its policy is essentially non-liberal, using that word with its political connotation.

From the time of the first operations under the Act some interest has been displayed by two reactionary daily papers and one radical periodical. The interest has been desultory, and the criticism from both extremes has been poorly founded. The great mass of the public and the rank and file of the press have ignored the most effective thin edge of the socialistic wedge yet used in Canadian politics.

It is true that on its face the Act appears innocuous, even if it indicates that the Liberal party has strayed from the "laissez-faire" fold a considerable distance, but the ease with which it may be turned into a highly successful measure of state socialism is obvious to any student of government. It is perhaps hopeless to expect that it should be obvious to elected members of the legislature. Or are we blind to realities ourselves, and failing to give credit to a radical assembly when we see it in action?

The Act as originally enacted provided for the establishment of schedules of hours of labour and wages in industry. Industry means and includes every business, trade or undertaking of any nature whatsoever except the mining and agricultural industries. The administration of the Act is charged to the Minister of Labour.

The operation of the Act seems a model of simplicity when we consider the difficulties involved. The Governor-in-Council appoints Industrial Standards Officers, whose duties are to assist in carrying out the provisions of the Act. The Minister divides the province into zones for the establishment of such schedules. On the petition of the employers and employees the officer convenes a conference or series of conferences in any zone to consider the conditions of labour, the practices prevailing in the industry, and to negotiate standards of uniform rates of wages and hours or days of labour. If a schedule of wages and hours of labour is agreed upon by a group of employers and employees considered sufficiently representative by the minister, he may approve of it, and by Order-in-Council the schedule is declared in force for that industry within the zone, for the period of twelve months. The schedule goes into force ten days after publication in the gazette. The schedule must be posted in a conspicuous place where the work is done.

Extensive powers of investigation and inquiry are given to the Minister to prevent evasions of the Act. These include similar rights to those held by the Minimum Wage Act officials, such as inspection of books, payrolls, financial statements, contracts, etc. Evidence under oath can also be taken. Provision is made that wages prescribed shall not be less than those provided in other similar social legislation.

The Act met with an immediate response in some industries, and in the second session of this Legislature important amendments were made. Provision was made for enlarging or reducing zones previously designated. The purposes of conferences convened by officers have been more clearly defined. As amended, the Act provides that

such a conference may submit to the Minister a schedule of wages and hours and days of labour, and such schedule may:

(a) establish the maximum number of hours comprising the regular working day;

(b) establish the maximum number of hours comprising the regular working week;

(c) establish the minimum rate of wages for the regular working periods;

(d) establish the particular days in the week for the performance of labour in the industry;

(e) establish the rates of wages and the periods for, and the conditions governing, overtime work;

(f) classify the employees and separately provide for each classification with respect to any of the matters which may be dealt with in such schedule;

(g) define any term used in the schedule.

The Order-in-Council declaring the schedule effective may be for twelve months or during the pleasure of the Governor-in-Council, and provisions for renewing the schedule are added. A new section is that providing for Advisory Boards of not more than five members for zones. This Board is charged with carrying out the provisions of the Act and the schedule, and is authorized to fix minimum wages for employees handicapped by age or physical or other disability.

Penalties provided in the 1935 Act have been increased, and for employer violation of the Act or schedules under it fines ranging from $25.00 to $500.00 are provided, with alternate prison terms of two to six months. Employees may be fined from $5.00 to $25.00 and imprisoned for a term not exceeding ten days. In addition to the fine, however, the employer may be ordered to pay any wages unpaid under the schedule. Prosecutions are charged to the Minimum Wage Board.

The response to the legislation in 1935 was immediate and within a few weeks the brewing industry, with Ontario designated as the zone, was holding conferences. There were drawn up schedules which this year have been continued and amended. Some fifty-seven other schedules have been agreed upon and confirmed by Order-in-Council.

The far-reaching effect of the legislation is appreciated when we learn of the industries which have used the measure to stabilize themselves. Hundreds of thousands of employees have been affected. Practically all the larger cities (London, peculiarly, being an exception) have been designated zones, and schedules adopted for such important industries as plumbing and heating, bricklaying

and plastering, electrical repair and construction, carpentry, painting and decorating and many allied building trades. On September 26th last, the whole province was again designated a zone for the men's and boys' clothing industry.

That the legislation has been to the benefit of the workers cannot be denied. And many employers find the security and certainty offered by the schedules of inestimable value to them. Wages have ranged from 28½ cents to 75 cents, with a tendency to fix 50 cents as a standard labourer's pay. Forty-four hours a week has been the usual limit fixed, with pay and a half for necessary overtime.

The limitations of the Act are, of course, obvious. The schedules may only be fixed by agreement, and, as is the case with most social legislation in Canada, there is a lack of enforcing machinery. But while it is neither as ambitious nor comprehensive a measure of legislation as the celebrated N. R. A. of the United States, it is not only workable but actually working. The step to compulsory acceptance of schedules by both employer and worker is not a difficult one when one remembers that they are presently enforced on a minority.

Regardless of the dislike which so-called rugged individualists may have for legislation interfering with freedom of business relations, the probability is that this type of legislation will be received with increasing favour by the masses who have just begun to think socially. Certainly measures such as the Industrial Standard Act should make for a sounder industrial economy and happier political state.

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James Albert Spenceley, B.A., M.A. - - - - - *English*

Melvin Eugene Bassett, B.A., M.A. - *Romance Languages*

Fred Landon, B.A., M.A., F.R.S.C., Librarian - *History*

Evelyn Kelly Albright, B.A., M.A. - - - - - *English*

Edward Ernest Reilly, B.S.A., M.S. - - - *Economics*

Margaret Gwendoline Keyes, First Class Secretarial Diploma, Kensington College - - - *Secretarial Science*

Lloyd Woods Sipherd, B.A., M.B.A. - *Business Administration*

Walter Albert Thompson, B.A., M.B.A. - *Business Administration*

Mark Keith Inman, B.A., M.A. - - - - - *Economics*

Frank Stiling, B.A., M.A. - - - - - - *English*

Herbert Edward Jenkin, B.A. - - *Commercial French*

Hartley Munro Thomas, B.A., M.A., Ph.D. - *History*

Gordon Richard Magee, B.A., M.S., Ph.D. - *Mathematics*

Lorna Birtles (Kensington College) - *Secretarial Science*

Mary Hamilton Gillespie, B.A. - - *Secretarial Science*

Cecil Cyril Carrothers, B.A., LL.B. - - - - - - - - - - - - *Business Administration and Law*

Mother Marie, B.A., M.A. - - - - - - *French*

Eleanor Croysdale Doherty, B.A., M.A., Ph.D., *English and French*

Doris Liddicoatt, B.A., M.A. - - - - - - *English*

Rosalina Saez, B.A. (Student) - - *Assistant in Spanish*